

Expiration of Conservation Reserve Program Contracts

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Issue. Producers have voluntarily placed over 36 million acres of highly erodible or other environmentally sensitive cropland in the Conservation Reserve Program (CRP) through the 12th signup period. Soil erosion has been significantly reduced and other conservation and wildlife benefits have been achieved. After CRP contracts expire, annual rental payments made by the U.S. Department of Agriculture (USDA) to CRP participants will end and producers will decide the next use of their land. If commodity market conditions are favorable, a significant portion of CRP land could be taken out of grass and returned to crop production. The conservation compliance provision of farm legislation should moderate increases in soil erosion and related water quality effects on most CRP land if returned to crop production. But, other CRP benefits, like wildlife habitat, would be reversed. Land first placed in the CRP will be available for crop production or other uses starting in late 1995.

Context. The CRP was authorized by the 1985 farm act as a voluntary long-term cropland retirement program with a soil conservation orientation. USDA pays producers an annual rental payment plus half the cost of establishing a conserving land cover in exchange for retiring highly erodible or other environmentally sensitive land from crop production. Ninety-three percent of CRP land is planted to grass or trees under 10-year contracts. Nearly 377,000 CRP contracts have been established, covering 8 percent of U.S. cropland. Expiration of CRP contracts will make land available for cropping or other uses beginning in late 1995, but the majority of acres are available for other uses in late 1996 and 1997. Fifty-seven percent of CRP acres are located in the 10 Great Plains States. Annual rental payments average \$50 per acre, with an annual \$1.8 billion Federal government outlay.

Establishing vegetative cover on CRP land improves surface water quality, creates wildlife habitat, preserves soil productivity, protects ground water, and reduces offsite wind erosion damage. Soil erosion reductions on CRP land amount to nearly 700 million tons per year. This is a 22-percent decrease in U.S. cropland erosion compared with conditions existing prior to CRP and conservation compliance. If returned to crop production, most CRP land would be subject to conservation compliance, thus moderating increases in soil erosion. Conservation compliance requires producers to use approved conservation plans on highly erodible land in exchange for continued eligibility to receive farm program benefits. The CRP also provides producers a dependable source of income and helps to reduce commodity surpluses, increase crop prices, and decrease annual commodity program costs.

When their contracts expire, producers with plans for their CRP acres said they would return half to crop production, leave one-third in grass for livestock grazing or hay production, and keep almost a tenth in tree cover or in grass or trees for wildlife habitat, according to a 1990 survey. Producers cited economic conditions as the most important factor in determining future use of CRP land. However, changing economic conditions could induce post-contract uses different from those anticipated by producers in 1990.

At Stake. It is too early to accurately predict the economic and budgetary conditions that will exist when CRP contracts end. If demand for U.S. wheat and feed grains is strong, possibly due to trade agreements and increased foreign demand, most CRP land could return to crop production and annual acreage reduction programs would probably be small. This scenario, similar to the mid-1970s, would have the most negative implications for soil erosion, water quality, and wildlife habitat benefits provided by the CRP.

If demand for U.S. wheat and feed grains weakens, a smaller amount of CRP land would likely return to crop production in the immediate period following contract expiration. However, annual acreage

reduction programs would be large, absorbing some CRP land, but providing less overall soil erosion, water quality, and wildlife habitat benefits.

Something between these scenarios would likely occur if demand for U.S. commodities remains near recent levels. Some CRP land would be returned to crop production with resulting reductions in environmental benefits. Annual acreage reduction programs would likely increase over current levels.

Alternatives.

Do nothing except maintain bases, allotments, and quotas. Current regulations require USDA to protect crop acreage bases, quotas, and allotments on CRP land and to permit haying and grazing during specified periods for 5 years after a contract expires if the producer keeps the land in conserving uses. This provision, along with commodity program provisions such as 0/50/92, planting flexibility, and multiyear set-aside, provides producers with production choices that will not force them to replant CRP acres solely to preserve base history.

Target selected CRP land for contract extensions or easements. Contract extensions or easements of varying durations with or without haying and grazing privileges could be offered to producers. However, consistent with efforts to reduce the Federal budget deficit, easements or contract extensions might be offered only to selected CRP land. Because CRP land differs, selection could be based on the magnitude of its environmental benefits and/or the likelihood of its return to crop production relative to costs necessary to keep it in conserving uses. CRP land subject to effective conservation compliance treatment or providing minimal environmental benefits might be ineligible for contract extension or easements. Similarly, CRP land planted to trees could be ineligible since nearly all of this land likely will remain in trees.

Under existing farm legislation, producers can extend most CRP contracts for up to 5 additional years if they convert existing vegetative cover to hardwood trees, windbreaks, shelterbelts, or wildlife corridors. In addition, USDA has authority to extend contracts for up to 10 years or purchase long-term or permanent easements on CRP land (except land planted to trees) that is determined to pose an environmental threat and is likely to return to crop production. However, before this authority could be exercised, Congress would have to appropriate funds for extensions or easements.

Other options. Other possible options for dealing with expiring CRP contracts include cost-sharing of fencing and watering facilities for assisting conversion to livestock production, transfer or purchase of crop acreage base, and, in limited instances, outright government purchase of CRP land.

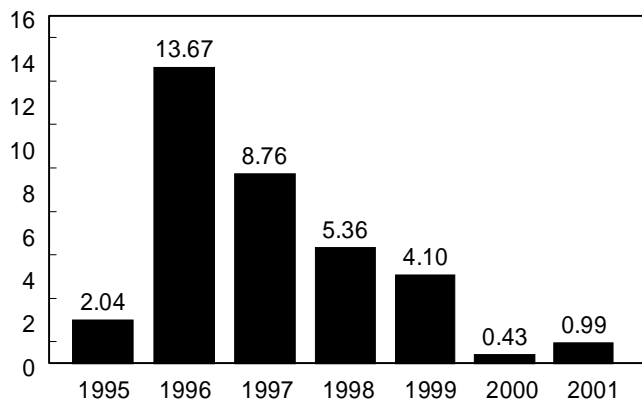
Agenda. Commodity groups, conservation, wildlife, and environmental organizations, contract holders, and local interests are asking what, if anything, the Federal government plans for CRP land as contracts expire. Early resolution by Congress and the administration would allow producers time to plan for the transition. However, action will likely revolve around the next farm bill debate, expected in 1995.

Information Sources. Two U.S. Dept. of Agriculture, Economic Research Service bulletins: *The Conservation Reserve Program: Enrollment Statistics for Signup Periods 1-11 and Fiscal Years 1990-92*, SB-843, and *The Conservation Reserve Program: An Economic Assessment*, AER-626. Also see: *When Conservation Reserve Program Contracts Expire...A National Survey of Farm Owners and Operators Who Have Enrolled Land in the Conservation Reserve*, Soil and Water Conservation Society, Ankeny, IA.

Post-contract availability of CRP land

Most acres will be available for cropping or other uses in late 1996 and 1997.

Million acres



Water Reallocation and Policy Reform

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Issue. Growing water demand, coupled with limited potential for expanding supplies, assures increasing competition for water. Extreme drought conditions over several consecutive years has exacerbated supply problems in many areas of the West. Water reallocation, involving the transfer of water from current to alternative uses through voluntary markets or restrictions on use, is a central water policy issue. Federal and State agencies involved with water policy must balance quantity allocations and, where possible, introduce pricing mechanisms or water markets to ensure that water is reallocated to achieve economic and environmental goals.

Context. Irrigated agriculture accounts for about 80 percent of the Nation's total consumption of freshwater withdrawn from surface streams and aquifers. The 46 million acres irrigated in 1987 represented only 15 percent of the total harvested cropland, yet accounted for 38 percent of total crop value.

Irrigated agriculture in the Pacific and Mountain States relies heavily on surface water. Federally financed Bureau of Reclamation (Reclamation) projects account for about one-third of total surface water withdrawals for irrigation (see figure). The importance of the Federal role is historically rooted, in part, in an agriculturally based settlement strategy that provided surface water supplies at below cost to promote economic development of the West. Ground water is the dominant water source in the Plains States. While significant groundwater reserves exist under much of the region, supplies are nonuniform due to varying aquifer thickness. Groundwater withdrawals, largely for irrigation, have caused aquifer levels to decline in many areas. This, in turn, has resulted in increased pumping costs and localized aquifer exhaustion. At the same time, irrigation is expanding in areas of the Northern Plains with more favorable aquifer conditions. Irrigation has expanded significantly in recent years in the more humid East, with both Arkansas and Florida now among the top 10 States in irrigated acreage. Water supply conflicts, traditionally a western problem, are emerging in the Eastern States.

At Stake. Reallocation of existing agricultural water supplies will be needed to supply expanding urban and industrial demand, environmental needs, and reserved water rights of Federal and Native American lands. Failure to reallocate water may compromise future economic development and environmental quality. On the other hand, policies to conserve supplies may impose costs on irrigated agriculture and rural communities by idling irrigated cropland, altering cropping patterns, and increasing the chances for crop and farm failure.

Alternatives. Meeting future water needs will involve some combination of enhancing, reallocating, and conserving water supplies.

Supply enhancement. This historically preferred option will not completely supply future needs. While a few dams may be constructed, high monetary and environmental costs are limiting factors. Increased groundwater withdrawals may boost supplies in the short run, but higher pumping costs and public concern about declining aquifers will likely slow long-term groundwater use. Research continues on practices and technologies to augment supplies: cloud seeding, runoff management, groundwater recharge, water reuse, and desalination, for example.

Supply reallocation. Reallocation of existing water supplies is the most likely alternative. Supply reallocation could be direct, by limiting water withdrawal rights, or indirect, through voluntary, compensated water transfers. Compensating irrigators who reduce their water use could minimize production losses by providing both an incentive to conserve water and funds required to improve irrigation systems. An expanded market transfer system would require relaxing institutional and administrative barriers that currently restrict market activity.

Conservation. Onfarm water management and improved water conveyance and application systems can greatly reduce irrigation water withdrawals. Increases in irrigation efficiency may largely offset reductions in water supplies in some locations, implying little effect on acreage or production. Policy tools to encourage water conservation may include direct quotas on withdrawals, investment incentives for water-conserving technologies, penalties for wastewater discharge, and higher water prices, possibly through reduced Federal subsidies or increased groundwater taxes.

Agenda. Reclamation contract, pricing, and delivery policies remain the central focus of Federal water policy reform. Recently enacted reform of Reclamation's Central Valley Project in California provides for reallocating water to environmental uses, removing some Federal barriers to market transfers, and increasing water prices. Effectiveness of this reform in promoting water conservation, providing for growing urban demands, and meeting environmental needs will be evaluated. This legislation might serve as a model for more general revision of Reclamation policy.

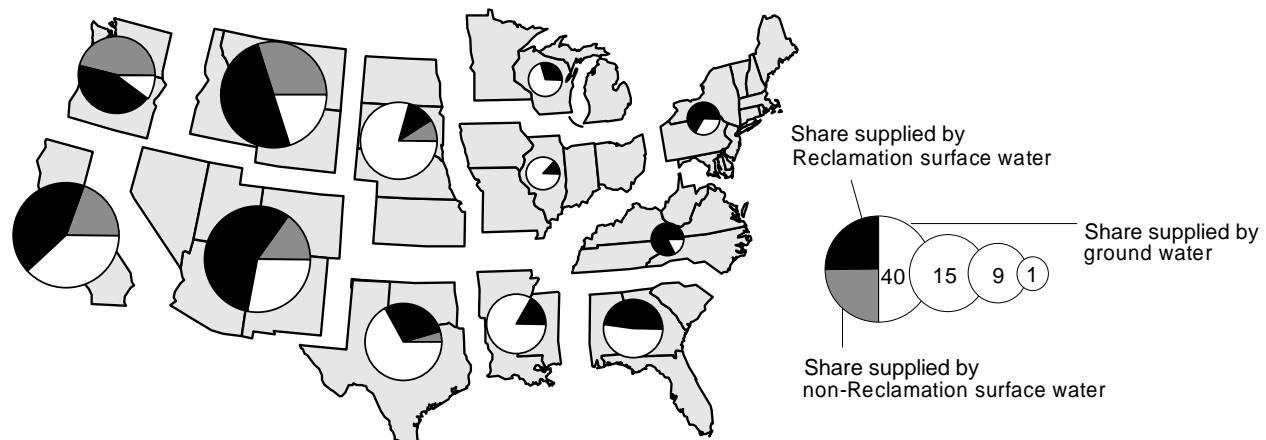
Federal water policy is defined by numerous Federal policies, programs, and statutes affecting water supply and demand conditions. In practice, Federal water policy extends beyond Reclamation, involving the Departments of Agriculture, Interior, Commerce, Energy, and Justice, as well as the Environmental Protection Agency. Coordination among agencies is needed to avoid policies that operate at cross purposes.

Action at the Federal level comprises only part of water policy reform. Responsibility for policies affecting ground water and most surface water resources rests at the State, river basin, or district level. Federal agencies can help by providing information and resources.

Information Sources. Information on irrigated agriculture: U.S. Dept. of Agriculture, Economic Research Service, *Agricultural Irrigation and Water Use*, AIB-638, Jan. 1992, and U.S. Dept. of Commerce, Bureau of the Census, *Farm and Ranch Irrigation Survey (1988)*, AC87-RW-1, May 1990. Information on water use; U.S. Dept. of the Interior, Geological Survey, *Preliminary Estimates of Water Use in the United States, 1990*, Open-File Report 92-63, and U.S. Dept. of the Interior, Bureau of Reclamation, *1990 Summary Statistics*, 1991.

Irrigation water withdrawals by major water source, 1990

Federal policies influencing Reclamation projects affect one-third of total surface water used for irrigation.



Note: Values and corresponding circle size represent maximum irrigation water withdrawals in million acre-feet.